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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of the Petition of	)	
	)	
AT&T CORP. and ALASCOM, INC.	)	CC Docket No. 00-46
	)	
For Elimination of Conditions Imposed by the FCC on the AT&T-Alascom Relationship	)	

To the Commission:

REPLY OF AT&T CORP. AND ALASCOM, INC.

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SUMMARY

In their Petition for Elimination of Conditions, AT&T and Alascom demonstrated that the Alaska telecommunications market has grown far more competitive in the several years since the last time the Commission carefully examined the market. The facts supporting this conclusion include parity in interstate market shares between Alascom and General Communication, Inc. ("GCI"), entry by a number of other substantial competitors, major expansions in facilities that compete with AT&T and Alascom, both within Alaska and between Alaska and the world, and legal and regulatory changes nationally in the form of deregulation and passage of the Telecommunications Act of 1996. The State of Alaska submitted comments concerning the Petition, generally asking questions, and GCI and United Utilities, Inc. opposed it. However, none of the parties materially challenge the facts which establish the dramatic growth in Alaskan telecommunications competition.

The State asks several reasonable questions, all of which are answered in this Reply. In essence, the answers are that Alascom seeks immediate repeal of the Bush Policy and replacement of Alascom's Common Carrier Service ("CCS") by negotiated inter-carrier arrangements and the offering of a broader menu of AT&T's national services, at AT&T's rates, all of which will be more efficient and competitive than CCS. There will be a two-year monitoring period to assure that the replacement of CCS has been accomplished successfully, with the CCS rates being capped during the two years, and only after that time would Alascom have the right to discontinue CCS.

AT&T and Alascom are committed fully to maintaining service to all Alaskan locations, including to all of the Bush communities served by Alascom. They would not end service to any locations. Such commitment is proven by AT&T's earlier decision to replace the current Aurora II satellite with Aurora III, an investment in excess of $144 million, continuing a thirty-year history of reliable service to the Bush. Simply put, AT&T seeks to provide service to Alaska in the same way it serves the other 49 states, with the same administrative, corporate and

regulatory arrangements, and the same model of oversight of interstate services and rates.

For their part, UUI and GCI have no material challenge to the facts presented in the Petition. Instead, they reflexively oppose change and improved opportunities for competition. GCI, in particular, urges delay, calling for investigations, joint board referrals, strict carrier selection procedures, and 214 discontinuance procedures, which have no conceivable public interest merit, and which could only cause unwarranted delay of additional competition and improved efficiency.

For these reasons, the relief in the Petition should be granted promptly so that Alaskans, and especially residents of the Alaska Bush, may participate more fully in the nationwide telecommunications market.

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REPLY OF AT&T CORP. AND ALASCOM, INC.

AT&T Corp. ("AT&T") and its wholly-owned subsidiary Alascom, Inc. ("Alascom") hereby reply to other parties' comments in the above-captioned proceeding concerning AT&T's and Alascom's Petition for Elimination of Conditions ("Petition"), filed March 10, 2000.[1]

I. INTRODUCTION

In the Petition, AT&T stated its intent to harmonize delivery of interstate telecommunications service to Alaska with its provision of service throughout the rest of the United States by becoming a direct provider rather than exclusively through Alascom. Integration of the Alaska operations would normalize the way AT&T provides service and smooth the way for significant improvements, including substantial consumer benefits and support, expanded efficiencies and cost savings, and improved opportunities for competition, especially in the Alaska Bush.

To support these public interest benefits, and others, AT&T and Alascom sought specific, modest, and carefully-tailored regulatory relief from the Commission through the reduction of "special" regulatory burdens placed upon them and the Alaska service, all of which have long outlived their usefulness. AT&T and Alascom requested that the

[1] This Reply addresses the Comments of the State of Alaska ("State Comments"), Opposition of General Communication, Inc. ("GCI Opposition"), and the United Utilities, Inc. Opposition to Petition for Elimination of Conditions ("UUI Opposition").

Commission immediately terminate the historical Bush Policy, accepting and acting upon applications for satellite earth stations in Alaska subject to the same standards prevailing for all other domestic locations. Simultaneous with termination of the Bush Policy, AT&T and Alascom requested elimination of the separate corporation, separate tariff and affiliate transaction obligations currently imposed on them, allowing full integration of the Alascom operation into AT&T and provision of Alaska services in harmony with AT&T's services in the other 49 states, with the temporary exception of Alascom's Common Carrier Service ("CCS") offered under its Tariff FCC No. 11. Alascom proposed to maintain Tariff No. 11 for a two-year transition period under streamlined regulations with capped rates, allowing the Commission to monitor the provision of services to the Bush through traffic reports offered every six months. AT&T would make available service arrangements to replace CCS which would be more efficient and price competitive, and if the Commission took no further action, then Alascom would be free to discontinue CCS after the successful conclusion of the two-year period.

Review of the State Comments, GCI Opposition and UUI Opposition establishes that the Alaska market facts demonstrated by AT&T and Alascom in their Petition are substantially conceded by all. AT&T and Alascom showed that the Alaska market has grown dramatically more competitive in the many years since the Commission last examined it and applied the subject regulations. Specifically, the following facts are undisputed.

More than 90% of Alaska access lines today are accessible to at least two facilities-based interexchange carriers, GCI and Alascom. (Petition, pp. 5-6). GCI is a mature, state-wide competitor, carrying approximately the same amount of Alaska interstate traffic as Alascom. Its market share has grown steadily while Alascom's has declined. For example, in 1993, GCI carried about half of the amount of interstate traffic carried by Alascom. Today, the differences are slight. (Petition, pp. 6-7).

GCI owns most of the cable television systems in Alaska, giving it additional direct access to a significant majority of all Alaskan customers. GCI is a well-established Internet service provider in Alaska and a major presence in the local exchange business as well, with approximately 24% of the Anchorage local exchange market. (Petition, p. 7).

Other substantial interexchange competitors have established themselves in Alaska in the several years since the Commission closely examined the market. Among them are ATU-LD, which through its parent Alaska Communications Systems, Inc., is commonly owned with local exchange operations in Alaska representing about 70% of all access lines, including the LECs serving Anchorage, Fairbanks and Juneau. Additional and notable long distance competitors include the Matanuska Telephone Association, Alaska Network Systems, WCI Cable, Inc., Alaska Fiberstar and KANAS, Inc. (Petition, pp. 8-10).

There have been large expansions in facilities which compete with those of Alascom. For example, WCI Cable and GCI both have deployed undersea fiber optic cable systems interconnecting various locations in Alaska with the lower 48 states and the world. Up until recently, there was only one undersea fiber optic cable between Alaska and the world and Alascom owned approximately 90% of it. Today, there are three such cable systems and Alascom owns less than 10% of the total capacity. Alaska Fiberstar and KANAS, Inc. have constructed and compete with substantial additional fiber optic systems within Alaska. (Petition, pp. 9-10).

There have been fundamental legal and regulatory changes since the last time that the Commission carefully examined the Alaska market. Among such changes are the reclassification of AT&T and Alascom as nondominant carriers and the passage of the Telecommunications Act of 1996, which codified the rate integration policy and provided a springboard for additional growth in competition nationally. (Petition, pp. 4-5).

With this brief summary of the undisputed record, AT&T and Alascom specifically address the observations submitted by the interested parties.

II. AT&T AND ALASCOM ARE COMMITTED TO BUSH SERVICE.

A. Alascom Is Not Withdrawing From Bush Service.

UUI and GCI suggest that the requested reductions in regulation of Alascom would diminish its commitment to service to the Alaska Bush, or might even be a prelude to actual termination of Alascom service to Bush locations. Those contentions are unfounded. The State asks for clarification, which follows.

First and foremost, AT&T and Alascom have not sought to discontinue service to any locations in Alaska. They only seek authority to replace CCS with more efficient service arrangements, and after a two-year monitoring period, to have authority to discontinue CCS after it has been superceded by other, more effective service arrangements.[2] CCS is provided exclusively to other carriers, so its replacement will be irrelevant to all non-carrier customers, large and small. The purpose of the monitoring period is for the Commission and all interested parties, including the commenters, to watch the progress of Alascom's replacement of CCS. Obviously, if progress is unsatisfactory, then the Commission could prohibit Alascom from actually terminating CCS, or delay its discontinuance.

AT&T and Alascom have no plans to stop serving any Bush locations. Indeed, the contrary suggestion by UUI and GCI is made ludicrous in light of AT&T's commitment in 1998 to enter into an agreement for construction, launch and operation of a satellite to replace the Aurora II satellite with another, particularly intended to continue an optimum service arrangement for the Bush. (*See* Petition, p. 12). AT&T already has committed itself to an investment of more than $144 million in a satellite replacement to serve Alaska. Such actions speak louder than words.

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[2] To be sure, AT&T constantly evaluates the competitiveness of all of its services in order to meet customer needs to the fullest extent possible. When a service has become obsolete because of changes in technology or customer demand, AT&T may decide to remove that offering nationally, which would include removal from Alaska, but AT&T has no plans to discontinue any service to Alaska selectively, other than CCS.

Alascom (or any other operating carrier) cannot terminate provision of service to any location, including Bush communities, without substantial and explicit public notice to potentially affected customers and the state in which the service is offered.[3] Affected customers and the state would be free to complain and the FCC would have the discretion to stop any such move. UUI and GCI disregard these FCC procedures when they suggest that reduced regulation of CCS would allow Alascom to withdraw from Bush service. These FCC procedures apply to dominant and non-dominant carriers, with the only salient difference being the length of the notice period. The public interest is protected fully.

B. AT&T Would Replace CCS With Other Service Arrangements.

CCS is a "carrier's carrier" service by which interexchange carriers reach Alascom's service locations, Bush and non-Bush. Essentially, it is invisible, and unknown, to non-carrier customers. As shown in the Petition, virtually no carriers use CCS for non-Bush service, with AT&T being responsible for nearly 100% of non-Bush traffic. Indeed, only a very small amount of competitors' traffic is carried under the Bush portion of CCS, about 16% of the total for the Bush rate zone (3% of the total of the Bush and non-Bush zones). (Petition, p. 21). It is that very small amount of traffic which requires replacement service.

Prior to the time when the Commission required Alascom to serve other IXCs through CCS, which was a political compromise engineered in CC Docket No. 83-1376 about seven years ago, Alascom regularly served other carriers through carrier-to-carrier contract arrangements. AT&T and Alascom intend to enter into contract-based arrangements with any interested carriers. Using the model developed over many years nationally, reselling carriers could choose from a menu of services provided by AT&T and Alascom under AT&T's rates.

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[3] Implementation of Section 402(b)(2(A) of the Telecommunications Act, Report and Order in CC Docket No. 97-11, Second Memorandum Opinion and Order, AAD File No. 98-43, FCC 99-104 (June 30, 1999); *see also* Sections 63.60 *et seq.* of the Commission's Rules.

Business services in the following functional categories are now available for other carriers to use (and several have opted to do so because they provide rates more favorable than CCS):

- Business Outbound
- 800
- Private Line
- Frame Relay
- Calling Card

For business customers, for example, CustomNet Service, an integrated inbound and outbound service, which includes Simply Better and Flexible Pricing, offers switched calling for inbound, outbound, calling card, and intraLATA toll calling. CustomNet, including Simply Better, offers term plan contracted services, while Flex Pricing is a non-contracted service offering available on both a month-to-month and term basis.

In addition, with the elimination of the separate subsidiary requirement, and subject to marketplace demand and availability of requisite network and billing components, AT&T plans to make UniPlan Service and AT&T Business Network Service (ABN) available. These services provide a combination of outbound, inbound, calling card and switched and dedicated access and are available on a month-to-month or term plan basis. The customer can select the functionalities and pricing plan most appropriate for its service configuration. These nodal services are offered at integrated rates. AT&T views its UniPlan and ABN services as representing the cutting edge of its voice service offers which, over time and with the introduction of new features and functionalities, will become the services of choice for most mid-to-large business customers. AT&T is also looking at introducing "All In One" service in Alaska which is a month-to-month switched service plan aimed at small business customers.[4]

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[4] GCI's suggestion that AT&T and Alascom should be "investigated" for "withholding" services is frivolous. (GCI Opposition, p. 24). AT&T and Alascom have more than met

Today, the Commission requires that CCS be priced at Alascom's location specific, stand alone rates. One goal of the Petition is to relieve Alascom of the highly burdensome CCS obligation and permit AT&T and Alascom to expand offerings to all interested customers including other carriers. Contract offerings (and the aforementioned services) would not be constrained as CCS is. Not only would such offerings be more flexible and efficient, allowing current and potential competitors additional service choices, but the rates would be far more attractive. Nationwide rate integration and lifting of the Bush Policy allowing competing earth station facilities, would protect resellers fully.[5]

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any reasonable expectation or obligation regarding service availability. With respect to carriers, the Commission requires Alascom to resell to other carriers under the specific terms of CCS. Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the Continuous States and Alaska, Hawaii, Puerto Rico and the Virgin Islands, Final Recommended Decision, 9 FCC Rcd 2197 (Joint Board 1993), *adopted and modified*, Memorandum Opinion and Order, 9 FCC Rcd 3023 (1994). With respect to other services, as described in the Petition, the separate subsidiary requirement has required Alascom and AT&T to continue to maintain separate tariffs and separate billing systems. This lack of interoperability has retarded Alascom's ability to introduce services into Alaska that are available from AT&T in the lower 48 states. The systems problem has been aggravated by the relatively low scale of the demand for any particular Alascom service. In addition, there are a certain number of mature services which are available in the lower 48 states that have become obsolete due to changes in technology and customer demand. Because these services will eventually be removed from the list of services offered by AT&T, they were not introduced in Alaska. Naturally, given systems, demand and in some instances network constraints, AT&T chose to offer initially those AT&T services through Alascom that would be most responsive to business customer needs and that would be of greatest benefit to them.

[5] In any event, GCI has been serving Bush locations directly for a considerable period of time already. It does so through its own satellite earth stations under a waiver of the Bush Policy serving approximately fifty locations, representing about three quarters of Bush traffic. (Petition, p. 21). The Bush Policy only restricts the construction of earth stations for competition in MTS and WATS, so GCI and all others have been free to provide interstate private line services throughout the Bush. Alascom is aware that currently GCI directly provides data services to Bush schools, libraries and health care facilities under the federal "E-rate" program.

C. Alascom Will Honor Intrastate COLR Obligations.

As noted above, AT&T and Alascom have entered into an agreement to replace the Aurora II satellite with Aurora III. They also continue to improve and deploy Bush earth station facilities, digitizing the Alascom network. These are investments which continue, or strengthen, Alascom's commitment to applicable state carrier of last resort ("COLR") obligations.

Through misstatements of the record before the Regulatory Commission of Alaska ("RCA," formerly the Alaska Public Utilities Commission), GCI and UUI contend that Alascom intends to abandon COLR obligations. That is false. In AT&T Alascom's comments filed February 4, 2000 in the RCA's IXC Market Structure Proceeding (Docket R-98-1), Alascom demonstrated that the intrastate market for long distance service has matured to the point that it should no longer be regulated as the "dominant" carrier. Alascom urged that the intrastate facilities restriction (similar to the FCC's Bush Policy) should be lifted, allowing facilities-based entry into the Bush by competing carriers.

As a consequence, Alascom asked that COLR responsibilities be shared among those facilities-based carriers operating in the Bush. At no point did Alascom seek to eliminate COLR requirements, it simply pointed out that forcing Alascom to shoulder COLR responsibilities alone, while experiencing declines in statewide market share and prices, is not competitively neutral.

Alascom advanced the prospect of an explicit subsidy which would be competitively neutral and portable as a means of ensuring universal service to Bush communities. The result of intrastate competition and its attendant reduction in Alascom's prices and market share has been a net shortfall in Alascom's Bush revenue, which should be recovered via an explicit subsidy that is competitively neutral and shared among facilities-based IXCs operating in the Bush, rather than internalized by AT&T Alascom alone.

These recommendations are responsible and necessary. They do not set the stage for service abandonment. AT&T Alascom stated that Bush service will continue:

> Consistent with its prior statements on this subject, AT&T Alascom once again urges the Commission [RCA] to adopt rules that provide for an equitable sharing of COLR responsibilities between facilities-based IXCs. Given the dramatic changes in the market and GCI's significant inroads as a facilities-based IXC, continuing to impose COLR responsibilities exclusively on AT&T Alascom is unfair, unjust and discriminatory. <u>AT&T Alascom is not going to abandon its massive investments in rural Alaska. No community presently being served is at risk of being abandoned</u>. The real issues are (1) whether it is time to devise an equitable way to share this responsibility, and (2) whether there is an equitable, competitively-neutral way to support the COLR financially. Any facilities-based carrier serving as COLR in the Bush should receive financial support for its efforts, through a Bush subsidy proposed by AT&T Alascom. (AT&T Alascom's Comments on the Staff Report and Proposed Regulations, Docket No. R-98-1, February 4, 2000, pp. 53-54, emphasis added).

In fact, GCI testified as follows to the RCA:

> The other [issue] is carrier of last resort. Despite Alascom's sort of theoretical arguments that the carrier of last resort is something that ought to be changed, I don't really think Alascom has any desire nor will have any desire in the near future to pull out of Alaska. They're investing. They've got the same reason that they need to be here because of the Lower 48 that I explained earlier about why we need to be here for traffic for MCI and Sprint. (James R. Jackson, Jr., GCI's Regulatory Attorney, Transcript of Public Hearing on R-98-1, March 15, 2000, p. 168).

Given this testimony by its counsel a few weeks ago, the contentions in GCI's current Opposition that Alascom seeks to abandon the Bush are disingenuous.

It is worth noting that GCI itself argued to the RCA for the creation of an explicit universal service funding mechanism to support intrastate service to the Bush.

> As GCI has previously advocated, GCI believes that the provision of interexchange service to rural villages should be supported by a universal service fund, with a payment of cents per minute for each minute that originates or terminates in a rural location. The subsidy should be available to all carriers that provide service (unless service is provided entirely by resale of an existing retail service, in which case the underlying carrier should receive the subsidy because the subsidy has already been incorporated in the retail rate). GCI has not determined the specific cents per minute amount of subsidy that is important. (Comments of GCI, Docket R-98-1, June 15, 1998, pp. 18-19).

UUI's suggestions that conditions in the Bush have not changed (UUI Opposition, pp. 5-10) do not undermine the fact that competition statewide and nationwide have rendered continuation of the Bush Policy unsupportable. The Commission has determined that interexchange telecommunications services within Alaska are part of one relevant product market, a determination which renders UUI's observations invalid.[6] And, in all events, Alascom remains committed, in word and in deed, to Bush service.

Therefore, suggestions by UUI and GCI that Alascom intends to abandon the Bush service, or that reduced regulation by the FCC would allow it to do so, are entirely unfounded, contrary to the record, and contradict GCI's own statements to the RCA. Related questions of the State (State Comments, p. 3) about COLR have been met fully.

III. PROMPT REPEAL OF THE BUSH POLICY IS WARRANTED AND GCI'S CONTENTIONS ARE SIMPLY AN EFFORT TO DELAY.

AT&T and Alascom explicitly proposed an immediate repeal of the Bush Policy, the Commission's historical restriction on the construction of satellite earth stations in Bush communities to provide MTS and WATS in competition with Alascom. Upon repeal, Alascom would have no more ability to impede competition in the Bush than any other carrier, and all competitors would have as many choices in serving the Alaska Bush as they have for rural locations nationally. On this basis alone, the "special" regulation of Alascom's Bush service would become unnecessary. As GCI so aptly put it before the RCA:

> So long as the restriction on construction of rural interexchange facilities remains, it is clear that AT&T must remain the dominant carrier and

[6] In re the Application of Alascom, Inc., AT&T Corporation and Pacific Telecom, Inc. for Transfer of Control of Alascom, Inc. from Pacific Telecom, Inc. to AT&T Corporation, 11 FCC Rcd 732, 754 (1995) ("Alascom Transfer Order").

> the carrier with carrier of last resort responsibilities. However, once the facilities restriction is lifted, GCI believes that a new approach to dominant carrier and carrier of last resort obligations should be developed.
>
> Once the facilities restriction is removed, GCI believes that AT&T should no longer be designated a dominant carrier. This has already occurred at the national level, where AT&T is no longer regulated as a dominant carrier by the FCC except for service to Alaska (because of the restriction). Because the market outside the restricted area is very competitive there is no longer any reason to subject AT&T to most of the restrictions associated by dominant carrier status. Nor should any other carrier be designated dominant. (Comments of GCI, R-98-1, June 15, 1998, p. 15).

GCI has urged repeal of the Bush Policy for many years[7] and for repeal of the corresponding Alaska intrastate restriction on competitive Bush earth station facilities.[8] Alascom has supported GCI's efforts to lift the intrastate Bush facilities restriction before the RCA, and has done so for the interstate restriction in the Petition before the FCC.

Now, rather than wholeheartedly welcoming Alascom's request for repeal of the Bush Policy, GCI wants to tie strings to it and delay the entire matter. GCI's reversal of its previous position is unexplained. As GCI itself has maintained, repeal of the Bush policy eliminates any basis for the dominant carrier-like regulation applied to any service. However, in an abundance of caution, AT&T and Alascom proposed to retain CCS for a monitoring period of two years after a repeal so that the Commission and the parties could be assured that appropriate competitive opportunities, through services and facilities, were available to any interested carriers. Various contentions to the contrary by UUI and GCI do not change the fundamental fact that once carriers are free to deploy their own earth station facilities as they see fit and are free to resell a broad menu of AT&T and other carriers'

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[7] *See* Petition of General Communication, Inc. for a Partial Waiver of the Bush Earth Station Policy, 11 FCC Rcd 2535 (1996); APUC, U-95-38, Order No. 10, January 26, 1996.

[8] In the Matter of the Petition of General Communications, Inc. for a Declaratory Ruling for a Waiver Regarding the Facilities Restriction, 3 AAC 52.355, February 19, 1997.

services, then the Alaska Bush is in the same competitive position as all other rural regions of the United States, and on that basis should not be regulated any differently.[9] It would be unsupportable policy, as well as unjust and unreasonable discrimination, for the Commission to regulate Alascom's provision of rural services more heavily than any other interexchange carrier when regulatory conditions are otherwise the same. The Commission has not tried to handicap the field in rural regions of states such as Wyoming, North Dakota and Montana. It would not have any valid reason to do so in Alaska once the Bush Policy is repealed.

GCI argues that CCS under Tariff No. 11 should not be ended "prematurely." (*See* GCI Opposition, pp. 10-12). AT&T and Alascom have offered a two-year safeguard period. The Bush earth stations monopoly would be eliminated long before Alascom would have any opportunity to end CCS, so its termination would not be "premature."

The two-year monitoring period is a reasonable accommodation of GCI's purported concerns. But GCI argues for endless long-term delay in the implementation of reduced regulation and improved efficiency. GCI urges the Commission to put Alascom service, efficiency and rate improvements on hold while the Commission considers the pending Alascom Cost Allocation Plan ("CAP") and concludes the investigation into Tariff No. 11. (GCI Opposition, pp. 14-16, 20-22). This is no more than a call by GCI to prevent new, competitive offerings by AT&T.

Ending the draconian regulation of CCS will eliminate prospectively the related complaints about Tariff No. 11 and the Alascom CAP. At the same time, the current complainants in connection with the CAP and Tariff No. 11 will be protected fully by the FCC accounting order in place and by Alascom's proposal to cap CCS rates permanently. GCI has placed itself in the anomalous position of deterring Tariff No. 11 rate caps, a

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[9] Obviously, if AT&T and Alascom do not provide reasonable service arrangements to other carriers in lieu of CCS, interested parties will be quick to complain to the Commission, and will have at least two years to do so.

service that GCI has repeatedly contended features rates that are unlawfully high.

Calls by UUI and GCI for a Joint Board referral are obfuscation. Section 410 of the Communications Act requires a referral to a joint board for a recommendation in the event that the Commission is considering changes in jurisdictional separations procedures. No such change is proposed in the Petition. Once a joint board recommendation is made, the Commission is free to accept, reject or modify it. For example, the Commission modified the recommendation of the Alaska Joint Board in CC Docket No 83-1376 at the time it was adopted. (*See* Memorandum Opinion and Order, (9 FCC Rcd 3023 (1994)). The Commission modified the recommended structure again in authorizing AT&T's acquisition of Alascom.[10] That decision worked a substantial change to the Alaska Joint Board's recommended scheme, specifically applying some of the regulatory conditions which are the subject of the Petition. It is ridiculous for GCI and UUI to argue that the Commission lacks authority to revise its own transfer of control authorization, or to modify the recommended Alaska market structure for, at least, the third time. Obviously, the Commission is free to further adjust the Alaska market, and the AT&T–Alascom arrangement, and should do so without delay.[11]

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[10] Alascom Transfer Order, 11 FCC Rcd 732.

[11] GCI attempts to throw two other procedural stumbling blocks in front of the Commission. It argues that AT&T and Alascom have not properly observed the Commission's procedures for service discontinuance, a claim which elevates form over substance. (GCI Opposition, pp. 24-26). All customers of CCS (*i.e.,* a handful of carriers) have been fully informed through this proceeding, and the State and RCA are involved as well, with a prior notice period of more than two years. GCI also argues that the Commission's carrier selection rules should be applied at such time as AT&T enters the Alaska market to provide service directly. Alaskan customers now are served by "AT&T Alascom." There is no justification for the expense, burden and potential confusion of "notifying" all Alaskan customers that service may be provided by "AT&T" rather than "AT&T Alascom" and that they have to make a new "selection" due an internal, corporate realignment.

IV. ELIMINATION OF THE SEPARATE SUBSIDIARY AND RELATED REQUIREMENTS WOULD BENEFIT THE CARRIERS, THE FCC, THE PUBLIC INTEREST AND WOULD NOT HARM STATE REGULATION.

A. The FCC-Imposed Conditions Serve No Valid Purpose.

GCI argues that Alascom should continue to be a separate subsidiary to "ensure" that improvements are made to the Bush service and that application of affiliate transaction rules are necessary to prevent "anti-competitive self-dealing." (GCI Opposition, p. 18). Both contentions lack merit.

To the contrary, there is no valid reason why the Commission's oversight of the quality of service to the Bush depends upon maintaining Alascom as a separate, but wholly-owned, subsidiary. Certainly, GCI advances no explanation for such a requirement. There is none. As shown previously, AT&T is making the investments necessary for viable Bush service. Whether Alascom operates as a structurally separate subsidiary subject to unique regulatory constraints or as part of the AT&T interexchange carrier enterprise is irrelevant to such investment.

Similarly, cries of "anti-competitive self-dealing" are simply echoes of the past. Rate-of-return regulation is past history, as are ratebases and jurisdictional cost separations, for ratemaking. GCI necessarily fails to define how a parent and its subsidiary could "self-deal" in any way to harm competition in today's market-driven environment with required rate integration, with only one possible exception (CCS), which AT&T and Alascom have addressed.

GCI argues that the Bush "monopoly" and CCS require that Alascom and its costs and minutes under CCS be separate from AT&T. (GCI Opposition, p. 19). But AT&T and Alascom have expressly asked that the "monopoly" be ended through repeal of the Bush Policy. They have asked that CCS be replaced with other, more effective service arrangements. The relief requested in the Petition would satisfy fully the concerns expressed by GCI.

In addition, elimination of these conditions would improve internal efficiency for AT&T and Alascom, allowing them to be more competitive. The Commission would conserve its resources as well, by eliminating oversight and maintenance of duplicate tariffs.

B. Intrastate Rates Will Not Be Adversely Impacted.

Both AT&T's residential and business services are priced based on a combination of market conditions and long-run incremental cost. As such, fully distributed booked costs are not used to set intrastate rates. Thus, any jurisdictional cost shifts that might occur would not affect intrastate rates. As shown above, nothing proposed by AT&T and Alascom will affect jurisdictional separations procedures. Moreover, although a substantial concern many years ago, separations have become essentially irrelevant to the ratesetting process.

For example, Alascom has not set its intrastate rates based on separations-determined booked costs in years. Intrastate retail rate plans have been set by market conditions (in the case of switched services) or actual costs (in the case of particular elements of private line services) and are not based on booked costs. In fact, even the 25% price reduction in Alascom's intrastate wholesale tariff in 1998 was accomplished with reference to the fact that retail rates had dropped 25% from levels in 1991. Booked costs were not utilized, and thus hypothetical "jurisdictional cost shifts" can have no effect on intrastate rates.

However, even if a jurisdictional shift in costs were to occur and placed upward pressure on intrastate rates, the availability of substantial network capacity owned by competing carriers who serve Alaska's urban centers, coupled with the requirement to geographically average intrastate retail rates, places great limits on Alascom's ability to raise rates to capture a revenue requirement. Given the loss of market power, it is difficult to believe that AT&T Alascom could raise rates to capture a revenue requirement that reflects a jurisdictional cost shift, even if one were to occur. Accordingly, the State should have no concerns about jurisdictional cost shifts. (State Comments, p. 3).

The sun has set on "revenue requirement neutrality" as a necessary policy guideline. AT&T owns Alascom, so the extent of Alascom's revenue requirements is irrelevant between the two carriers. AT&T has not relied on the "ratebase" in years to set its own national interstate rates, which, through rate integration, are Alascom's interstate rates. And, as shown above, Alascom's intrastate rates also are not ratebase dependant. Therefore, whether or not "revenue requirements" rise or fall have no effect on customer rates. Indeed, the expression of such a concern reinforces the fact that conditions such as affiliate transaction rules imposed on the AT&T–Alascom relationship have long outlived their usefulness.

C. The RCA Will Be Able To Regulate Alascom Effectively.

The State raises questions about the ability of the RCA to regulate Alascom if the separate subsidiary obligations are lifted. There is no reason for concern.

In the other 49 states, AT&T provides intrastate services through its interexchange affiliates, for example, AT&T Communications of California, Inc., with which it does not have to observe the conditions imposed on Alascom. Similar integration of Alascom into AT&T would not deprive the RCA of necessary information.

AT&T would maintain a separate set of books for Alascom, as it does for its other interexchange affiliates. To use the same example, AT&T maintains a separate set of books for regulatory purposes for AT&T Communications of California. The RCA would have access to a set of AT&T Alascom state books that could be reviewed and which would be the basis for appropriate state regulation and reporting requirements. The State's question concerning RCA regulation has been met. (State Comments, p. 3).

CONCLUSION

For these reasons, and based on the substantial undisputed record that competition has grown dramatically in the Alaska telecommunications market since the early 1990s when the Commission last examined it carefully, the Commission should eliminate the separate subsidiary, separate tariff and affiliate transaction obligations currently imposed on AT&T and Alascom. In addition, the Commission should immediately repeal the Bush Policy and simultaneously order streamlined regulation of Alascom Tariff FCC No. 11, subject to rate caps, and permit its discontinuance after a two-year monitoring period.

Respectfully submitted,

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May 2, 2000

CERTIFICATE OF SERVICE

I, Laura V. Nigro, do hereby certify that on this 2nd day of May, 2000, a copy of the foregoing "Reply of AT&T Corp. and Alascom, Inc." was served by U.S. first class mail, postage prepaid, on the parties named on the attached Service List.

/s/ Laura V. Nigro

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